


MACRO DAILY

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Macro developments

- India's services PMI slipped to 53.1 in Dec'18 from 53.7 in Nov'18 on account of slower pace of rise in new orders. However, employment rose at the second fastest pace in last eight months and business sentiment improved to a three-month high. Softening up of cost inflation to a 19-month low is likely to support services sector in the near term.
- Global services PMI fell from 53.7 in Nov'18 to 53.1 in Dec'18, taking the Q4CY18 average reading down to 53.4—weakest since Q4CY16. While US, China & India remained above the global average, the main drag were European countries. Eurozone's services PMI fell to 51.2 from 53.4 in Nov'18, led by Germany and France. Eurozone has reported sharp decline in new orders and softening of employment. Input price pressures remain.
- In a bid to boost liquidity, PBOC has cut RRR rates for all banks (currently: 14.5% of large banks & 12.5% for smaller banks) by 1%. The rate cut will be in 2 phases of 0.5%, effective from 15 Jan & 25 Jan respectively. This is expected to free up ~800bn Yuan (US\$ 116bn). Further, to stimulate economic growth government also plans to make more tax cuts and boost infrastructure spending. This may take the fiscal deficit to 3% in CY19 from 2.6% in CY18.

BOB Economics Research

+91 22 6698 5713

chief.economist@bankofbaroda.com

Markets

- Bonds:** Global yields closed mixed. US 10Y yield shot up by 11bps (2.67%) on the back of higher job creation and pick up in wage growth. Crude prices rose by 2% (US\$ 57/bbl) driven by further trade talks between US & China. Indian 10Y yield also shot up by 2bps (7.45%) led by selling pressure from foreign and private banks. It was trading at 7.44% today.
- Currency:** Global currencies closed mixed. While JPY depreciated by (-0.8%), both EUR and CNY ended flat. Other major currencies closed higher as DXY fell by (-) 0.1% after US Fed Chair signalled a more cautious approach going forward. INR today opened at a 5-month high of 69.39/\$. Asian currencies were also trading higher.
- Equity:** Except Nikkei (-2.3%), global indices ended higher led by news of trade talk between US & China scheduled this week. Dow surged by 3.3% as Fed signalled slower pace of rate hikes in CY19 and on the back of stronger jobs report. Sensex was trading higher today, in line with other Asian markets.



FIG 1 – MOVEMENT IN KEY GLOBAL ASSET CLASSES

Particulars	Current	1D	1W	1M	3M	12M
10Y yields (Δ bps)						
US	2.67	11	(5)	(25)	(57)	19
UK	1.28	8	1	(4)	(45)	3
Japan	(0.04)	(4)	(4)	(10)	(19)	(10)
Germany	0.21	6	(3)	(7)	(37)	(23)
India	7.45	2	6	1	(58)	16
China	3.14	(2)	(17)	(18)	(49)	(79)
2Y yields (Δ bps)						
US	2.49	12	(2)	(30)	(39)	53
UK	0.76	6	1	0	(16)	26
Japan	(0.18)	(4)	(4)	(4)	(6)	(5)
Germany	(0.60)	2	1	1	(8)	1
India	6.84	1	1	(28)	(99)	25
China#	2.69	0	1	19	(28)	(116)
Currencies (Δ %)						
EUR	1.1395	0	(0.4)	0.4	(1.1)	(5.3)
GBP	1.2723	0.8	0.2	(0.1)	(3.0)	(6.2)
JPY	108.51	(0.8)	1.6	4.1	4.6	4.0
AUD	0.7113	1.5	0.9	(2.1)	0.9	(9.5)
INR	69.73	0.7	0.3	1.0	5.5	(10.0)
CNY	6.8692	0	0.1	(0.2)	0.8	(5.9)
Equity & Other indices (Δ %)						
DOW	23,433	3.3	1.6	(6.4)	(11.4)	(7.4)
FTSE	6,837	2.2	1.5	(1.2)	(6.6)	(11.5)
DAX	10,768	3.4	2.0	(3.9)	(11.1)	(19.2)
NIKKEI	19,562	(2.3)	(3.0)	(10.8)	(17.8)	(17.5)
Shanghai Comp	2,515	2.0	0.8	(5.1)	(7.6)	(25.9)
SENSEX	35,695	0.5	(1.1)	(0.5)	3.8	4.5
Brent (USD/bbl)	57.06	2.0	9.3	(7.3)	(32.2)	(15.6)
Gold (USD/oz)	1,286	(0.6)	0.4	3.9	6.8	(2.5)
CRB Index	412.9	0.5	1.0	(1.0)	(1.0)	(5.4)
Rogers Agri Index	768.0	0.8	1.1	(1.6)	(2)	(5.2)
LIBOR (3M)*	2.80	0.1	0	3	39	109
INR 5Yr Swap*	7.20	(2)	(5)	(14)	(56)	49
India FII data (US\$ mn)						
	3 Jan	2 Jan	WTD	MTD	CYTD	FYTD
FII-Debt	203.3	35.3	330.4	158.0	158.0	(6,832.7)
FII-Equity	(150.3)	(62.5)	(288.7)	(145.2)	(145.2)	(6,828.1)

Source: Bloomberg, Bank of Baroda | #1 year yield is taken, *Indicates change in bps

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For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5713

chief.economist@bankofbaroda.com